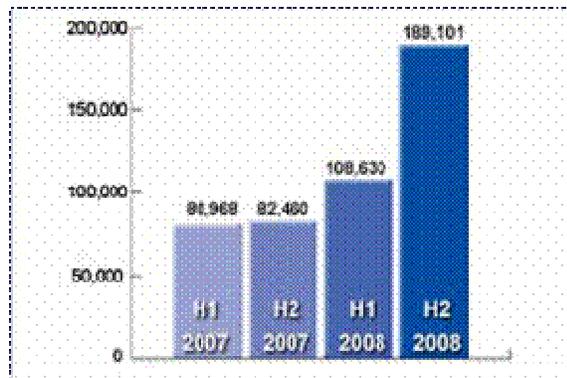


MFA Newsletter

The economic situation in the Palestinian Authority and Israeli 6 December 2009 relief measures - periodic update



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1. Points for emphasis

· Growth continues in the West Bank. Fayyad recently addressed the growth of 8% or more that is projected for 2009. In an interview with the New York Times on November 11, Quartet emissary Blair anticipated that the Palestinian economy might reach a double-digit growth rate in 2009.

· The second cellular company in the West Bank, Wataniya, commenced operations at the beginning of November with 3.8 MHz and 40,000 subscribers. According to various publications, the company is expected to bring investments estimated at about \$700 million into the West Bank, and to bring revenues of \$354 million into the treasury of the Palestinian Authority, while providing thousands of jobs.

· The Palestinian Authority has a budget deficit of \$200 million because of missing donations for 2009 (after receiving a

\$200 million contribution from Saudi Arabia).

· Israel continues to transfer collected tax monies to the Palestinian Authority on a regular basis. In November, the Minister of Finance signed approval to transfer the monies to the Palestinian Authority. NIS 330 million was transferred on November 29 (compared with NIS 293 that was transferred in October).

· **Projects:**

- Construction work on the central structure in the French project of the Bethlehem industrial zone commenced in the middle of November. The project is being built in Area A.

- The USAID project to upgrade the Jalameh crossing (Gilboa) has been completed. It enables the passage of thousands of travelers and hundreds of vehicles each week. The project has enabled 3.3 times more Israeli Arabs to enter the West Bank cities, from 16,000 in September to 52,000 in November.

- The cornerstone was laid on October 13 for the new Al Jinan neighborhood in Jenin, in which about 1000 housing units will be constructed.

· **Progress on the project to construct West Bank electricity substations** : The European Investment Bank approved on November 17 a € 250 million loan to the Israel Electric Corp. to finance its investment plans and investments in the power grid as part of a regional project. Concomitantly, a financial agreement was attained between the Israel Electric Corp. and the Palestine Electric Company, with the European Bank acting as facilitator for the construction of four substations in the West Bank. The project will be implemented by the Israel Electric Corporation. The European Investment Bank will provide the loan package for construction of the power lines from Israel and for financing the construction of the stations themselves.

· The Palestinians canceled their participation in the annual meeting organized by the Ministry of Defense to promote infrastructure projects (water, sewage and electricity) in the West Bank and Gaza Strip. The meeting, which was to have been held on December 2 in Tel Aviv, with the participation of delegates from the international community who are involved in the

projects, Palestinian representatives (head of the Water Authority and head of the Ministry of Energy), and Israeli representatives (from the Ministry of Defense, the Unit for the Coordination of Government Activities in the Territories-COGAT, the IDF, the Ministry of Foreign Affairs, the Water Authority, and the Israel Electric Corp.), was postponed.

Details of the above points :

2. Statistics on the improved economic situation:

· **The Palestinian national product:** A 5.6% increase in the first quarter of 2009 compared with the corresponding quarter last year, and a 5.4% increase in the second quarter of 2009, compared with the corresponding quarter in 2008.

· **Unemployment in the West Bank:** A drop from 19% in the first quarter of 2008 to 17.7% in the first quarter of this year. A drop from 18.2% unemployment in the second quarter of 2008 to 16.4% in the second quarter of 2009.

· **Unemployment in the Gaza Strip:** A drop from 45.5% in the second quarter of 2008 to 36% in the second quarter of 2009.

· **Growth:** In an interview with WP and Newsweek in October, Fayyad related to "8% growth in 2009, if not more," and described the growth as "very good." Special Quartet envoy Tony Blair mentioned the possibility of a double-digit growth rate in 2009.

· **Stock market:** A 12.5% rise since the beginning of the year.

· **Foreign investments in the West Bank:** A six-fold increase (!) compared with the corresponding period last year, as a result of the economic conferences that were held in Bethlehem and Nablus, and of the improved security in the area (this figure was provided by the Palestinians and the Joint Economic Conference held on September 2).

· **Truck traffic between Israel and Judea and Samaria:** A 41% increase in the first half of 2009 compared with the corresponding period last year. There was a 22% increase in the crossing of goods into the Gaza Strip between September and October, and an additional 14% increase from October to November (source of data: COGAT).

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- **Palestinian sales to Israel:** From 2007 to 2008 there was a 6.8% increase, from \$530 million to \$566 million. In the first quarter of 2009, there was an 8% increase, from \$136 million to \$147 million (source: Central Bureau of Statistics).

- **Palestinian purchases from Israel:** From 2007 to 2008 there was a 25% increase, from \$2.6 billion to \$3.25 billion. In the first quarter of 2009, there was a decrease of 9.5% compared with the corresponding quarter in 2008, from \$796 million to \$720 million (source: Central Bureau of Statistics).

- **General Palestinian foreign trade (including with Israel):** Imports in 2008 totaled \$3.7 billion, of which 72% was from Israel. This is a 20% increase compared with 2007. Imports in 2008 increased by 3%, and reached \$529 million. The PA's total trade in 2008 was \$4.3 billion - a 17% increase compared with 2007.

- **Energy:** There was a 29% increase in gasoline consumption and a 7.6% increase in diesel fuel consumption in the first half of 2009, compared with the corresponding period last year (source: COGAT).

- **Imports of cement:** In the first half of 2009 alone, 18% more cement was imported than in all of 2008 (source: COGAT).

- **Vehicle purchases:** There was a 44% increase.

- **Tourism:** In 2008 there was a 93% increase in the number of tourists in the Bethlehem area (about one million tourists), and a 31% increase in the Jericho area (about half a million tourists). The number of hotel stays in the third quarter of 2009 was 136,000 - a 42% increase compared with the corresponding quarter last year.

3. Projects and developments that reflect the economic growth

- **General:** The Rawabi city project is in the advanced planning stage. A new mall and a cinema complex were opened in Nablus, exhibitions and economic conferences were held this year in the West Bank (in Al Bireh, Hebron and Nablus) attended by thousands of people, and there has been marked momentum in Ramallah which, in recent years, has become an unprecedentedly bustling and flourishing West Bank city of cafes and restaurants.

- **The cornerstone was recently laid for the al-Jinan neighborhood** (on October 13) in which one thousand housing units will be built. In the first stage, 132 units will be constructed.

The developer foresees completion of this stage in 2012.

· **The Bethlehem industrial zone** - Work commenced in July on construction of the Bethlehem industrial zone, under the auspices of the French president. The plans involve the construction of a zone for light industry, handicrafts and stone crafts, located 12 km southeast of Bethlehem. The area of the first stage will be 230 dunams and later on it will encompass 3,500 dunams, all within Area A. This month, work began on construction of the central building in the area. All the project plans were approved. The Palestinians have still not submitted to Israel the plans for connecting the Hebron - Tarqumiyah access road and the plans for the sewer network and for trash removal. The prime minister instructed the entities dealing with the matter to participate in financing the planning of the access road to the industrial zone. The cost of the construction and the infrastructures required for the industrial zone are to be undertaken by the Palestinians and the French.

4. Israeli measures and relief policy :

A. General :

· The Government decided to establish a ministerial committee headed by the prime minister to examine and promote economic measures that will lead to economic growth in the West Bank. A regional cooperation minister will be appointed, whose ministry will be in charge of coordinating and advancing the above matters.

· The JEC, headed by Deputy Prime Minister Shalom and Palestinian Minister of National Economy, Bassem Khoury, met on September 2. The meeting that was to take place on November 8 was postponed at the request of the Palestinians due to the resignation of Minister Khoury (who was replaced by Hassan Abu Libdeh). A new date has not yet been set.

· Collected taxes continue to be transferred from Israel to the Palestinian Authority. On November 29, NIS 330 million were transferred to the Palestinian authority treasury.

B. Assistance for the festival of Eid al-Adha

Gaza: For the Eid al-Adha festival, some 7,000 head of cattle were brought into the Gaza Strip.

The West Bank: The following measures were taken between November 26th and December 2nd (announced by the IDF spokesman):

- Palestinians were permitted to enter Israel for the purpose of visiting immediate family members.
- Israeli citizens were permitted to enter Tulkarm in vehicles through Checkpoint 407.
- The hours of operation of the Awarta checkpoint, south of Nablus, were extended to 10:00 p.m.
- A roadblock that had been placed on the Jenin - Tulkarm road was removed in order to accelerate passage between the two cities.
- A roadblock that had been placed in the area of Kfar Dahariya was removed in order to improve access to the villages near Hebron.
- More than 50 roadblocks in Judea and Samaria were removed permanently.
- Married men over the age 45 were allowed to enter the Temple Mount for prayers with a special permit. Men over the age of 50 were allowed to enter without a special permit. Married women between the ages of 30 and 45 were allowed to enter the Temple Mount with a special permit, and women age 45 or older were allowed to enter without a special permit.

During the holiday, the IDF also reduced its activities in the main West Bank cities, and the hours of operation of the Palestinian police in those cities were extended.

C. Traffic and access facilitation

Checkpoints: The number of major checkpoints has been reduced since July 2007 from 41 to 14 today. For example, the Huwara checkpoint south of Nablus, which was one of the most difficult checkpoints in the West Bank, is now open 24 hours a day, despite the fact that, in the past, Nablus was known as the “terror capital.” In September, the Minister of Defense ordered the removal of 100 roadblocks in various places in the West Bank.

Most of them have, indeed, been removed. It should be noted that for several months the IDF and the Civil Administration have been holding meetings with OCHA (UN Office for the Coordination of Humanitarian Affairs) in order to map the checkpoints and roadblocks in the territory, and to create a basis for discussion on the subject. It should be emphasized that removal of the checkpoints and roadblocks entails a calculated risk. For example, on July 9, 2009, an Israeli vehicle was shot at and the shooters exploited the opening of the checkpoint in Ramallah in order to escape from the city's security forces. With the removal of the checkpoints near Kalkilya at the beginning of June and, for the first time in a decade, removal of the checkpoints surrounding the Palestinian cities, inter-city traffic flows uninterrupted. In addition to the removal of the checkpoints, some 150 roadblocks in the West Bank have also been removed. As mentioned, before Eid al-Adha, more than 50 other roadblocks were removed permanently.

· **Permitting Israeli Arabs to enter West Bank cities:**

Permitting Israeli Arabs to enter Jenin, Tulkarm, Jericho and Bethlehem has led to a significant increase in retail commercial activity in those cities, and has stimulated the local economy. According to the IDF Planning Division, revenues from the visits of Israeli Arabs in Jenin, Tulkarm and Nablus alone (out of all the cities which they are permitted to enter) total NIS 8 million each weekend!

· **Upgrade for the Gilboa crossing:** The work on upgrading the crossing near Jenin has been completed with the help of USAID. The crossing was opened on October 13 and inaugurated a month later, on November 10, in the presence of Deputy Prime Minister and Minister of Regional Cooperation Silvan Shalom, Quartet envoy Tony Blair, Governor of Jenin Mussa Kadara, Gilboa Regional Council Head Danny Atar, representatives of the U.S. embassy and USAID. Now vehicles and not just pedestrians can enter (there is a crossing for merchandise operating near the passenger crossing). The crossing upgrade facilitates the movement of international organizations and diplomats, and is expected to significantly increase the number of Israeli Arabs entering the West Bank in their vehicles, thereby increasing the scope of their purchases in the area of Jenin and the northern West Bank. Between January and July of 2009, 78,000 Israeli Arabs entered Jenin, compared with 48,000 during the corresponding period last year. In September, 16,000 people went through the crossing, and in November, the first month in which the vehicle crossing was operative throughout the entire month, 52,000 people went through the crossing, i.e., more than 3 times as many as in

September. Out of those 52,000 people, 12,000 crossed on foot and 40,000 in cars - through the new vehicle crossing (data from the Crossings Authority).

- **Allenby Bridge:** A special ministerial committee, headed by Prime Minister Netanyahu, decided at the beginning of August to extend the operating hours of the Allenby Bridge crossing until midnight, for both people and goods, as a pilot project to continue until the end of the year. This measure has already led to a significant improvement for those crossing the bridge, and has greatly shortened the time it takes to cross. Official Palestinian entities report that this measure has already saved the Palestinian economy tens of millions of shekels. Meetings held by Israeli customs with business people and Palestinian customs agents (the last of which was held on August 18th), are helping to improve the service and to increase the movement of Palestinian goods across the bridge.

D. Employment

- The number of employment permits approved for Palestinians reached 54,318 in September 2009 (for work in Israel and for Israeli employers in West Bank settlements). 47,161 actually utilized these permits (about 86%).

- The number of Palestinians employed in Israel increased by 8.4% compared with 2008.

- The number of work days of Palestinian laborers in Israel increased by 19%.

- About 14% of the Palestinian workforce is employed in Israel or in Israeli businesses in the West Bank.

- About 5,000 permits were approved for overnight lodging in Israel, of which 4,373 were utilized, i.e., 87.5%.

- In September 2009, the Minister of Defense approved an increase in the number of Palestinian construction workers by an additional 4,000.

These workers contribute a great deal to the growth in the West Bank, as do the 1,500 business people who are permitted to go through all the crossings between Israel and the West Bank without prior coordination, after being issued special cards (BMC - Business Man Card). It is important to note that the list of

recipients of these documents is determined according to the request of the Palestinian Authority.

5. Policy in the Gaza Strip - humanitarian aid :

· Before, during and after the Gaza Operation, Israel acted to enable the entrance of humanitarian aid into the Gaza Strip. Israel ensured the orderly operation of the electricity, communications and water infrastructures, including bringing in equipment and repair teams to repair water and sewer facilities during the operation, and to repair turbines and parts of the Gaza power station after the operation, including a two-month stay by a Siemens team, which conducted repairs and maintenance work at the power station, etc.

· **Supply of gasoline:** In August, Israel renewed the supply of gasoline for private use, according to the standard determined by the High Court of Justice as the threshold sufficient for humanitarian needs. While the minimum quotas determined by the High Court of Justice are only partially filled because of the debts owed by the gas stations in Gaza to the Palestinian Authority, a decision was made in the summer by the Coordinator to meet the threshold set by the High Court of Justice: 800,000 liters of diesel fuel and 75,400 liters of gasoline per week are approved for transfer as the minimum for use for private transportation.

· **Supply of cooking gas:** In general, cooking gas has been transferred to the Gaza Strip without restriction before, during and, of course, after the operation. Due to security reasons which jeopardize the continued operation of the terminal, Israel was recently compelled to reduce to a minimum the operation of the gas terminal at Nahal Oz depot and, for that purpose, an alternative was built for the transfer of cooking gas at Kerem Shalom. To some extent, this reduced the ability to transfer cooking gas to the Gaza Strip, and now action is being taken to increase the capacity at Kerem Shalom for a quick solution to the problem. As a rule, the transfer of the gas is coordinated with the Palestinian Fuel Administration Authority in Ramallah. The Authority pays for the transferred fuel (by means of tax offset) and is responsible for collecting the money from the gas stations in the Gaza Strip.

- **Diesel fuel for the power station:** The transfer of 2.2 million liters a week (financed by the European Union) continues. It is important to note that the flow of diesel fuel to the power station took place throughout and after the operation.

- **Vital humanitarian infrastructure projects :**

- **The Serry project:** Israel is conducting a dialogue with Robert Serry, special emissary of UN Secretary-General, regarding vital humanitarian projects, primarily relating to sewer systems. Implementation of the projects will serve as a pilot to test the ability to supervise the entrance of equipment and materials for rehabilitating essential infrastructures. In talks with the Secretary-General's emissary, Israel expressed its willingness to coordinate the entrance of materials for repairing and sealing houses that were damaged during the operation, before the arrival of winter.

- **Sewage purification plant in Beit Lahia:** The World Bank issued a tender for the second stage of the sewage purification project in the northern Gaza strip (Beit Lahia). In order to complete the first stage, actions have been implemented in recent months, including a visit by an expert on behalf of the Bank in July 2009. Israel approved drilling to conduct treated wastewater to the aquifer, and the required equipment was brought in to construct the facility, including cement, iron and aluminum. As mentioned, stage A of the plan (building collection and sedimentation pools) was completed in full. The World Bank issued the tender to entrepreneurs and investors for building the purification plant itself.

- **Other projects:** In recent months, the implementation of several projects has been approved, among which are a German sewage plant, repair of a flour mill, approval for restoration of the American school (the Americans do not intend to restore the structure at this stage, but rather to operate the school in another structure. For that purpose, the entrance of equipment for the school was approved), as well as a project of greenhouses and chicken coops at the request of USAID.

- **Supervisory mechanism for monies and materials:** Israel is conducting discussions with the Palestinian Authority, the US, EU representatives in the area and others, with the aim of establishing an agreed-upon supervisory mechanism, subject to international standards, which will ensure, if and when a decision

is made to that effect, that monies, materials and equipment that are brought into the Gaza Strip for vital humanitarian projects actually reach their destinations. The dialogue with the Palestinian Authority on supervision of the monies and the structure of their banking system is moving along slowly.

- **Food:** All food products are brought into the Gaza Strip, except for those that definitely constitute luxuries.

- **Agriculture:** Fertilizers that are not dual purpose, potato seeds, eggs for reproduction, bees, equipment required for the Dutch project dealing with the export of flowers, etc.

- **Monies:** Each month Israel transfers NIS 50 million to the Gaza Strip for salaries for Palestinian Authority employees, and up to \$13.5 million for salaries for UNRWA workers (most of them Palestinians).

- **Infrastructures and energy:** Most of the equipment required for the work of the Siemens people at the Gaza Strip power plant was brought in. Israel does not restrict the quantity of cooking gas brought into the Gaza Strip, and it is determined by the Palestinians according to demand. As mentioned, Israel enables the supply of fuel to the Gaza Strip in the quantities required for reasonable subsistence, as determined by the High Court of Justice. The order is coordinated and paid for directly by the Authority vis-à-vis the fuel suppliers. There is no quota on cooking gas, but due to technical and security problems which are in the process of resolution, the supply was limited in November.

- **Education:** At the beginning of November, the Civil Administration permitted the transfer of equipment designated for the UNRWA schools: notebooks, school bags, writing implements and text books. Two Braille printers were also brought in.

- **Health: the Jordanian field hospital in Gaza:** The hospital was established near the end of the operation. The daily *al-Arab al-Yawm* reported (on November 19th) on the arrival of a

supply convoy for the military field hospital operated by Jordan in the Gaza Strip. The convoy arrived in Gaza through the Kerem Shalom crossing and contained 8 trucks carrying medical equipment and instruments, including drugs and a modern x-ray machine. Since its establishment in January 2009, the hospital has treated 155,000 medical cases and performed 2,020 major surgeries and 3,090 minor surgeries.

· **Health: Psychiatric help provided by Jordan to residents of the Gaza Strip:** The daily *al-Rai* reported (on November 22) on a Jordanian team of five psychiatrists who have been providing psychological assistance for the past month to residents of the Gaza Strip. The team instructed and trained 85 people on emergency teams and medical teams, in the framework of five psychological aid courses.

6. Important statements:

Marc Otte, European Union emissary to the Middle East, to the working group for Middle East affairs in the European Parliament (November 24):

- There has been an economic improvement in the West Bank, primarily due to removal of the checkpoints.
- There is no shortage of equipment or cement for construction in Gaza, and Hamas is controlling the resources.
- - Hamas dismissed employees of the systems and appointed its own people, and that is the reason that there is no construction in Gaza.
- The prevailing economy in Gaza is not an official economy but rather an economy of tunnels; there are no shortages in Gaza, but there is a problem of unemployment, primarily for civilians who are not close to Hamas and have no buying power.
- The security fence has proven its effectiveness in the fight against terrorism.

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